

Owosso Downtown Development Authority

**Financial Report
with Supplemental Information
June 30, 2008**

Owosso Downtown Development Authority

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Independent Auditor's Report

To the Board
Owosso Downtown
Development Authority

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Owosso, Michigan (the "City") as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 8, 2008, which expressed unqualified opinions on the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information. Those basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Owosso's basic financial statements. The accompanying financial statements of the Owosso Downtown Development Authority are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information presented has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

To the Board
Owosso Downtown
Development Authority

The management's discussion and analysis and budgetary comparison schedule, as identified in the table of contents, are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures to the budgetary comparison schedule, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

December 8, 2008

Owosso Downtown Development Authority

Management's Discussion and Analysis

Our discussion and analysis of Owosso Downtown Development Authority's (the "Authority") financial performance provides an overview of the financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the Authority's financial statements.

Financial Highlights

As discussed in further detail in this analysis, the following represents the most significant financial highlights for the year ended June 30, 2008:

- Captured property tax revenue, the Authority's largest revenue source, was \$427,542 before returning \$105,432 school millage capture in excess of debt service and \$65,907 repayment to McLaren Medical for settlement of a tax appeal.
- A promissory note approved by the DDA in September 2006 covering the local share of hotel demolition costs was exercised coincident with the City assuming liability to build a new parking lot at the site. Both parties' liabilities were necessitated when a private sale did not materialize by the grant deadline. See Note 7 on pages 10 and 11 of the financial statements for further detail.

Using this Annual Report

This Authority has a single operating fund, which is presented in this financial report from two different perspectives - the modified accrual basis and the full accrual basis. The full accrual basis (referred to as the statement of net assets and the statement of activities) presents a longer-term view of the Authority's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year and whether the taxpayers have funded the full cost of providing government services. The modified accrual column presents a short-term view; it tells us how the taxpayers' resources were spent during the year, as well as how much is available for future spending.

Owosso Downtown Development Authority

Management's Discussion and Analysis (Continued)

Analysis of Financial Activities

Following is a three-year trend of activities and resulting net assets:

	2006	2007	2008
Revenue:			
Property taxes	\$ 450,904	\$ 471,068	\$ 280,910
Other	<u>511</u>	<u>193</u>	<u>6,094</u>
Total revenue	451,415	471,261	287,004
Expenditures:			
Current services	54,263	72,073	138,402
Capital outlay	144,237	101,472	46,974
Brownfield Redevelopment Authority debt contribution	-	-	63,246
Debt service contribution	<u>259,856</u>	<u>242,893</u>	<u>138,254</u>
Total expenditures	458,356	416,438	386,876
Change in net assets	<u>\$ (6,941)</u>	<u>\$ 54,823</u>	<u>\$ (99,872)</u>
	2006	2007	2008
Assets:			
Cash and cash equivalents	\$ 5,364	\$ 13,887	\$ 16,683
Due from other governmental units	<u>103,490</u>	<u>286,928</u>	<u>110,000</u>
Total assets	108,854	300,815	126,683
Liabilities:			
Current liabilities	99,506	236,644	99,138
Noncurrent liabilities:			
Due within one year	-	-	11,220
Due in more than one year	<u>-</u>	<u>-</u>	<u>52,026</u>
Total liabilities	99,506	236,644	162,384
Net assets - Unrestricted	<u>\$ 9,348</u>	<u>\$ 64,171</u>	<u>\$ (35,701)</u>

Owosso Downtown Development Authority

Management's Discussion and Analysis (Continued)

The decrease in net assets in 2008 is the result of recording a liability for a promissory note of \$63,246 held in abeyance since 2006 for the local share of hotel demolition costs. Another significant liability of \$49,188 relates to a contested assessment for removal and clean-up of an underground storage tank on Ball Street as part of a streetscape project the Authority undertook.

Individual Fund/Budgetary Perspective

The adjustment from modified accrual to full accrual relates to recording the promissory note described above as debt on the full accrual basis. During the current year, the budget was amended to reflect the loss of tax capture revenue related to the settlement of the McLaren Medical tax appeal.

Contacting the Authority's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

Owosso Downtown Development Authority

Balance Sheet/Statement of Net Assets June 30, 2008

	Balance Sheet - Modified Accrual	Adjustments	Statement of Net Assets - Full Accrual
Assets			
Cash and cash equivalents (Note 4)	\$ 16,683	\$ -	\$ 16,683
Due from other governmental units	110,000	-	110,000
Total assets	<u><u>\$ 126,683</u></u>	-	126,683
Liabilities			
Accounts payable	\$ 32,088	-	32,088
Due to other governmental units	67,050	-	67,050
Noncurrent liabilities (Note 7):			
Due within one year	-	11,220	11,220
Due in more than one year	-	52,026	52,026
Total liabilities	99,138	63,246	162,384
Fund Balance - Unreserved	<u>27,545</u>	<u>(63,246)</u>	-
Total liabilities and fund balance	<u><u>\$ 126,683</u></u>		
Net Assets - Unrestricted		<u><u>\$ (63,246)</u></u>	<u><u>\$ (35,701)</u></u>

Owosso Downtown Development Authority

Statement of Revenue, Expenditures, and Changes in Fund Balance/ Statement of Activities Year Ended June 30, 2008

	Revenues and Expenditures - Modified Accrual	Adjustments	Statement of Activities - Full Accrual
Revenue			
Property taxes:			
Ad valorem tax levy	\$ 24,707	\$ -	\$ 24,707
Tax increment capture	256,203	-	256,203
Interest	51	-	51
Other	6,043	-	6,043
Total revenue	287,004	-	287,004
Expenditures			
Professional services	81,529	-	81,529
Operating supplies and other	25,678	-	25,678
Contractual services	29,359	-	29,359
Advertising	1,836	-	1,836
Capital outlay	46,974	-	46,974
Contribution - Brownfield Redevelopment Authority debt obligation	-	63,246	63,246
Contribution - City of Owosso's Debt Service Fund (Note 5)	138,254	-	138,254
Total expenditures	323,630	63,246	386,876
Change in Fund Balance/Net Assets	(36,626)	(63,246)	(99,872)
Fund Balance/Net Assets			
Beginning of year	64,171	-	64,171
End of year	<u>\$ 27,545</u>	<u>\$ (63,246)</u>	<u>\$ (35,701)</u>

Owosso Downtown Development Authority

Notes to Financial Statements June 30, 2008

Note 1 - Organization

Owosso Downtown Development Authority (the "Authority") was created, effective July 19, 1977, by Ordinance No. 331 of the City of Owosso, Michigan pursuant to Act. No. 197 of the Public Acts of 1975 of the State of Michigan. The Authority may levy an ad valorem tax, not exceeding two mills, on all taxable property in the downtown district. The tax is used for operations of the Authority and planning of improvements in the downtown district. In addition, the Authority may capture the tax levy resulting from any increase in assessed values within the downtown district to be used to finance the development of the downtown area. The Authority's governing body, which consists of nine individuals, is selected by the City Council.

Note 2 - Summary of Significant Accounting Policies

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to local governmental units. The following is a summary of the more significant policies:

Reporting Entity

Owosso Downtown Development Authority is a component unit of the City of Owosso, Michigan. Its basic financial statements are included in the City's basic financial statements because the majority of the governing body is appointed by the City.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Basis of accounting refers to when revenue and expenditures are recognized in the account and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Authority uses the modified accrual basis of accounting. Its revenues are recognized when they become measurable and available as net current assets.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

In addition to presenting information on the modified accrual basis, the financial statements present information for the Authority using the economic resources measurement focus and the accrual basis of accounting. This information is intended to demonstrate the degree to which taxpayers have funded the full cost of services received. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Owosso Downtown Development Authority

Notes to Financial Statements June 30, 2008

Note 2 - Summary of Significant Accounting Policies (Continued)

Property Taxes - Ad valorem property taxes are levied and collected by the City of Owosso, Michigan as a part of, but in addition to, the regular city tax levy. The ad valorem tax in the special district is not to exceed two mills and can only be used for the operations of the Authority. In addition, the Authority has created a Tax Increment Financing District whereby the Authority captures all taxes collected in the district which result from the increase in the district's assessed value from its initial assessed value of 1984. The captured tax increment can only be used for the development of the downtown area.

The 2007 taxable valuation of the Authority totaled \$25.6 million (a portion of which is not captured from all jurisdictions), on which taxes levied consisted of 1.9556 mills for operating purposes. This resulted in \$256,203 for operating purposes. These amounts are recognized as property tax revenue.

Note 3 - Budget Information

The annual budget is prepared by the City's management and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2008 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget statement is presented on an activity basis. A comparison of actual results of operations to the budget included in the basic financial statements shows line item activity, which is in greater detail than the actual budget as adopted by the City Council.

Note 4 - Cash and Cash Equivalents

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At year end, the Authority had deposits with a bank balance of \$16,683, all of which was covered by federal depository insurance.

Owosso Downtown Development Authority

Notes to Financial Statements June 30, 2008

Note 5 - Related Party Transactions

The contributions to the City of Owosso's Debt Service Fund of \$138,254 represent taxes captured from the Tax Increment Financing District and transferred to the City for the retirement of debt issued to finance the construction of parking lots.

Note 6 - Commitments

Under its pledge to the City, the Authority transfers amounts annually to pay the principal and interest on the City of Owosso's general obligation bonds. The annual requirements to service these bonds as of June 30, 2008, including both principal and interest, are shown below:

	Governmental Activities		
	Principal	Interest	Total
2009	\$ 115,000	\$ 12,933	\$ 127,933
2010	115,000	7,930	122,930
2011	120,000	2,700	122,700
Total	<u>\$ 350,000</u>	<u>\$ 23,563</u>	<u>\$ 373,563</u>

Note 7 - Long-term Debt

The Authority signed a promissory note agreeing to be the obligor for repayment of funds loaned by the City to the Brownfield Redevelopment Authority for the purpose of demolishing a downtown building. The note requires 6 percent interest per annum for a term of five years. The principal balance of the note was \$63,246 as of June 30, 2008.

Long-term obligation activity can be summarized as follows:

	Beginning	Additions	Reductions	Ending	Due Within
	Balance			Balance	One Year
Governmental Activities - Note	<u>\$ -</u>	<u>\$ 63,246</u>	<u>\$ -</u>	<u>\$ 63,246</u>	<u>\$ 11,220</u>

Owosso Downtown Development Authority

Notes to Financial Statements June 30, 2008

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above note obligation are as follows:

	Governmental Activities		
	Principal	Interest	Total
2009	\$ 11,220	\$ 3,794	\$ 15,014
2010	11,893	3,121	15,014
2011	12,606	2,408	15,014
2012	13,363	1,651	15,014
2013	14,164	850	15,014
Total	<u>\$ 63,246</u>	<u>\$ 11,824</u>	<u>\$ 75,070</u>

Required Supplemental Information

Owosso Downtown Development Authority

Required Supplemental Information Budgetary Comparison Schedule Year Ended June 30, 2008

Current Year - Modified Accrual				
	Originally Adopted Budget	Amended Budget	Actual	Variance
Revenue				
Property taxes:				
Ad valorem tax levy	\$ 33,000	\$ 24,500	\$ 24,707	\$ 207
Tax increment capture	330,600	256,200	256,203	3
Interest	-	-	51	51
Other financing sources	-	9,325	-	(9,325)
Other	-	-	6,043	6,043
Total revenue	363,600	290,025	287,004	(3,021)
Expenditures				
Professional services	7,500	84,700	81,529	3,171
Operating supplies and other	14,800	28,700	25,678	3,022
Contractual services	37,825	32,000	29,359	2,641
Advertising	1,925	1,400	1,836	(436)
Capital outlay	48,000	57,700	46,974	10,726
Contributions to the City of Owosso's Debt Service Fund	142,550	138,300	138,254	46
Total expenditures	252,600	342,800	323,630	19,170
Excess of Revenue Over (Under) Expenditures	111,000	(52,775)	(36,626)	16,149
Fund Balance - Beginning of year	64,171	64,171	64,171	-
Fund Balance - End of year	<u>\$ 175,171</u>	<u>\$ 11,396</u>	<u>\$ 27,545</u>	<u>\$ 16,149</u>